

Message Text

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SUBJECT: PRESS MATERIAL

1. HERewith FULL TEXT JOSEPH KRAFT COLUMN, TUESDAY, MAY 20, WASHINGTON POST, HEADLINED "BOWING TO THE SHAH".
2. "STRONG, CAUTIOUS, TOLERANT BUT FIRM" IS THE WAY PRESIDENT FORD CHARACTERIZED AMERICAN POLICY IN THE MAY-AGUEZ AFFAIR. BUT EVEN AS THE RESCUE WAS UNFOLDING, THE ADMINISTRATION WAS SHOWING IN A FAR MORE IMPORTANT TEST OF FOREIGN POLICY, THAT IT CAN ALSO BE WEAK, IMPRUDENT, PRE-JUDICED AND JITTERY.
3. THE TEST WAS THE VISIT OF THE SHAH OF IRAN. AT STAKE WAS THE PRICE OF OIL--AN ISSUE CENTRAL TO THE WHOLE RANGE OF ECONOMIC QUESTIONS THAT INCREASINGLY DOMINATE INTERNATIONAL AFFAIRS.

4. TO UNDERSTAND WHAT HAPPENED, IT IS NECESSARY TO THINK

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BACK TO LAST FALL AND WINTER WHEN THE OIL-PRODUCING COUN-

TRIES GROUPED IN THE OPEC CARTEL ANNOUNCED THEIR LATEST PRICE RISES. AT THAT TIME THE ADMINISTRATION SEETHED WITH RIGHTEOUS INDIGNATION.

5. PRESIDENT FORD SUGGESTED THAT FOOD EXPORTS WOULD BE MANIPULATED IN RETALIATION. SECRETARY OF STATE KISSINGER DELIBERATELY LEFT OPEN THE POSSIBILITY THE US WOULD RESORT TO FORCE. SECRETARY OF THE TREASURY WILLIAM SIMON SAID THAT WHEN IT CAME TO THE PRICE OF OIL, THE SHAH WAS "A NUT."

6. LAST WEEK, WHEN THE SHAH CAME TO WASHINGTON, IT WAS PAY-OFF TIME FOR ALL THE RHETORIC. SINCE HE DOMINATES ALL POLICY DECISIONS IN HIS OWN COUNTRY, THE SHAH IS ONE OF THE VERY FEW INDIVIDUALS WHO CAN DO SOMETHING ABOUT THE PRICE OF OIL.

7. HE IS A STRATEGIC FIGURE IN OPEC, FOR IRAN IS THE SECOND-LARGEST OIL EXPORTER IN THE WORLD. OFFICIALS IN SAUDI ARABIA, WHICH IS THE BIGGEST EXPORTER, HAVE REPEATEDLY INDICATED THEY WOULD GO ALONG WITH ANY PRICE BREAK THE SHAH ACCEPTED.

8. MOST IMPORTANT OF ALL, THE SHAH IS NOW EXTREMELY SENSITIVE TO AMERICAN PRESSURES. HE HAS EMBARKED IRAN ON A VAST PROGRAM OF ECONOMIC AND MILITARY EXPANSION THAT IS HEAVILY DEPENDENT ON AMERICAN PRODUCTS, AMERICAN EXPERTISE AND AMERICAN MONEY, WHICH HE WILL SOON HAVE TO BE BORROWING AGAIN.

9. BUT YOU NEVER WOULD HAVE KNOWN IT JUDGING BY WHAT HAPPENED HERE LAST WEEK. THE SHAH WAS FETED IN A WELL-NIGH SHAMELESS WAY BY THE PRESIDENT, THE VICE PRESIDENT AND THE SECRETARY OF STATE.

10. I ASKED THE SHAH DURING A BRIEF CHAT WHETHER THE PRICE OF OIL HAD BEEN MENTIONED IN HIS OFFICIAL DISCUSSIONS. "ONLY CASUALLY," HE SAID. I THEN ASKED WHETHER HE BELIEVED THAT THE UNITED STATES WAS PREPARED TO LIVE WITH THE PRESENT PRICE. "NOT ONLY LIVE WITH THE PRICE," HE UNCLASSIFIED

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SAID, "BUT ACCEPT FURTHER INCREASES."

11. THE MESSAGE THAT THE SHAH RECEIVED FROM THE BOWING-DOWN OF AMERICAN OFFICIALS IS THE MESSAGE THE WHOLE WORLD WILL GET. JAPANESE AND EUROPEAN SUSPICIONS THAT WASHINGTON IS NOT SERIOUS IN ITS TALK OF BREAKING THE PRICE OF OIL ARE NOW CONFIRMED. THESE ALLIES WILL BE MUCH LESS READY TO COOPERATE WITH WASHINGTON ON JOINT

SCHEMES FOR ALIGNING THE OIL CONSUMERS AGAINST THE OIL PRODUCERS.

12. THE PRODUCERS, HAVING GOTTEN AWAY WITH THE LAST SET OF PRICE HIKES, CAN HARDLY RESIST ANOTHER INCREASE WHEN THE PRESENT FREEZE ENDS IN SEPTEMBER. PRESUMABLY THERE WILL BE AN EARLY RECONVENING OF THE PARIS MEETING OF OIL CONSUMING AND PRODUCING NATIONS WHICH BROKE UP IN CONFUSION LAST MONTH. BUT THE DRAMATIC SHOW OF AMERICAN WEAKNESS LAST WEEK IS GOING TO TEMPT ALL THE OTHER PRODUCERS--OF COPPER, COFFEE, TIN, SUGAR, BAUXITE, ETC.--TO FOLLOW THE OPEC LEAD. THE OIL PRODUCERS ARE APT TO BACK THEM.

13. THE LESSON OF ALL THIS IS NOT THAT THE UNITED STATES IS ALL WRONG NOW. THERE WAS NEVER A STRONG CHANCE TO BREAK THE OIL PRICE BY PUBLIC PRESSURE, SO NEGOTIATIONS WITHIN THE CONTEXT OF A PRODUCER-CONSUMER MEETING ALWAYS SEEMED THE RIGHT WAY TO PROCEED. IT IS GOOD THAT THE UNITED STATES HAS FINALLY ACCEPTED THESE FACTS AND COME OFF THE HARSH RHETORIC.

14. BUT THE UNITED STATES AND ITS ALLIES NEED TO STICK TOGETHER IN A RELATIVELY STRONG POSITION AT THE CONSUMER-PRODUCER CONFERENCE. THEY NEED TO SPLIT THE MORE MODERATE PRODUCERS, NOTABLY SAUDI ARABIA, OFF FROM THOSE WHO WANT TO TILT THE WHOLE ECONOMIC SYSTEM TOWARD THE SO-CALLED THIRD WORLD. THAT POSSIBILITY HAS BEEN GRAVELY COMPROMISED BY THE CLIMB-DOWN OF LAST WEEK FROM THE EXAGGERATED RHETORIC OF LAST FALL.

15. WHAT THE UP AND DOWNS SUGGEST IS THAT THE UNITED STATES HAS NO FOREIGN ECONOMIC POLICY. POSITIONS ARE UNCLASSIFIED

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TAKEN AS A RESULT OF HAGGLING AMONG THE WHITE HOUSE, THE STATE DEPARTMENT AND THE TREASURY. THE RESULT IS AN APPEARANCE OF JITTERINESS WHICH WILL CONTINUE AS LONG AS THE PRESIDENT DEPENDS SO HEAVILY ON A SECRETARY OF STATE WHOSE BASIC FEELING ABOUT ECONOMIC PROBLEMS IS THAT THEY SHOULD GO AWAY. (END TEXT) INGERSOLL

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